

# Donaldson, Lufkin & Jenrette

Donaldson, Lufkin & Jenrette Securities Corporation  
277 Park Avenue, New York, New York 10172 • (212) 892-3000

June 15, 2000

## PRIVATE AND CONFIDENTIAL

The Board of Directors  
CareFirst BlueCross BlueShield  
10455 Mill Run Circle  
Owings Mills, Maryland 21117-4208

Attention: Mr. William S. Jews  
President and Chief Executive Officer

Ladies and Gentlemen:

This letter agreement (the "Agreement") confirms our understanding that CareFirst BlueCross BlueShield ("CareFirst" or the "Company") has engaged Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ") to act as its exclusive financial advisor, commencing upon your acceptance of this Agreement, with respect to assisting you in analyzing strategic financial matters, including, without limitation, (A) advising you on issues related to a possible conversion of the Company from a not-for-profit corporation to a for-profit stock corporation (a "Conversion Transaction"), (B) the arrangement of one or more loans or credit facilities for the Company or the sale, placement or other distribution of the Company's equity or debt securities to public or private investors (including the possibility of an initial public offering of common stock of the Company) (a "Capital Transaction"), and (C) (i) the sale, merger, consolidation or any other business combination, in one or a series of transactions, involving all or substantially all of the business, securities or assets of the Company (a "Disposition Merger Transaction"); (ii) the acquisition (and any related matters such as financings, divestitures, etc.), in one or a series of transactions, of all or a portion of the business, securities or assets of another entity or person (an "Acquisition Merger Transaction" and, together with Disposition Merger Transactions, a "Merger Transaction" and, together with Conversion Transactions and Capital Transactions, a "Transaction").

1. As discussed, we propose to undertake certain services on your behalf including to the extent requested by you: (i) evaluating the operations, historical performance and future prospects of the Company and the strategic alternatives available to the Company; (ii) assisting you, if requested, in preparing a prospectus, offering memorandum or private placement memorandum, as the case may be, describing the Company, its operations, its historical performance and its future prospects; (iii) acting as lead initial purchaser, managing underwriter, manager, arranger or placement agent (as the case may be) in any Capital Transaction undertaken by the Company; (iv) in the case of a Merger Transaction, identifying and contacting selected qualified investors, acquirers or targets acceptable to you; (v) in the case of a Merger Transaction, arranging for potential investors or acquirers to conduct business investigations; (vi) assisting the Company to identify financial and structural issues relevant to any proposed Transaction; (vii) in the case of a Merger Transaction, negotiating the financial aspects of any proposed Merger Transaction under your guidance; and (viii) delivering an opinion to the Board of Directors of the Company, if requested, as to the fairness from a financial point of view of the consideration to be received by the Company or the party or parties deemed to beneficially own the securities or assets being sold

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or transferred (in the case of a Disposition Merger Transaction or transfer of the Company's assets in a Conversion Transaction) or paid by the Company (in the case of an Acquisition Merger Transaction).

2. As compensation for the services to be provided by DLJ hereunder (and previously provided), the Company agrees (i) to pay to DLJ (a)(1) a monthly retainer fee of \$150,000, payable at the beginning of each month, for the three month period beginning May 1, 2000 and concluding July 31, 2000; (2) a monthly retainer fee of \$100,000, payable at the beginning of each month beginning August 1, 2000 and concluding upon the sooner of December 31, 2000 or the termination of this Agreement; and (3) a monthly retainer fee of \$50,000, payable at the beginning of each month beginning January 1, 2001 and concluding upon the termination of this Agreement, (b) a fee payable (a "Conclusion Fee") equal to \$500,000 if the Company elects to terminate this Agreement, (c) in the event a Capital Transaction or a Merger Transaction occurs, the additional cash compensation set forth in Section 3 below, (d) a fee of \$750,000 at the time DLJ notifies the Board of Directors of the Company that it is prepared to deliver DLJ's opinion referred to in clause (viii) of Section 1 of this Agreement, irrespective of the conclusion reached therein and (e) an additional fee of \$50,000 for each update of a prior opinion delivered by DLJ with respect to a Transaction, and (ii) upon request by DLJ from time to time, to reimburse DLJ promptly for all out-of-pocket expenses (including the reasonable fees and expenses of counsel) incurred by DLJ in connection with its engagement hereunder, whether or not a Transaction is consummated. In the event that additional cash compensation is paid to DLJ (as described in Section 3) in connection with a Merger Transaction or Capital Transaction, the Conclusion Fee referred to in (i)(b) above will not be payable. As DLJ will be acting on your behalf, the Company agrees to the indemnification and other obligations set forth in Schedule I attached hereto, which Schedule is an integral part hereof.

3. The additional cash compensation referred to in clause (i)(c) of Section 2 above shall be (i) in the case of a Capital Transaction, a mutually agreed upon gross spread at rates normal and customary for similar transactions and (ii) in the case of a Merger Transaction, an amount equal to one percent (1.0%) of the aggregate consideration involved in the Merger Transaction which is equal to the sum of (1) the consideration paid by or received by the Company, or the party or parties deemed to beneficially own the equity of the Company, at the closing of the Merger Transaction (treating any shares or other interests issuable upon exercise of options, warrants or other rights of conversion as outstanding), plus the amount of any debt or preferred stock assumed or acquired or retired or defeased in connection with the Merger Transaction, and (2) the aggregate amount of capital committed to be contributed to the Company or any successor pursuant to the definitive agreement or required to be contributed to the Company or any successor by any government or regulatory agency in connection with the Merger Transaction. In the case of a Merger Transaction, this additional cash compensation due to DLJ shall be reduced by the amount paid by the Company pursuant to clause (i)(a)(2), (i)(a)(3), (i)(d) and (i)(e) of Section 2 above, but in no event shall this additional cash compensation due to DLJ be less than \$1,000,000. In the event that the Company enters into an agreement in connection with a Merger Transaction, and such Merger Transaction is terminated for any reason requiring the payment of a breakup fee to the Company, DLJ shall be entitled to receive twenty percent (20.0%) of such breakup fee.

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4. In the event that the consideration received in a Merger Transaction is paid in whole or in part in the form of securities or other assets, the value of such securities or other assets, for purposes of calculating our additional compensation, shall be the fair market value thereof, as the parties hereto shall mutually agree, on the day prior to the consummation of the Merger Transaction; provided, that if such consideration includes securities with an existing public trading market, the value thereof shall be determined by the average of the last sales price for such securities on the ten trading days prior to such consummation. In the event that all or some portion of the consideration is related to the future earnings, operations, membership or customer base of the Company, the portion of DLJ's compensation relating thereto shall be calculated and shall be paid in accordance with the preceding paragraph based on a mutually agreed upon estimated net present value thereof.

5. In the event that the Company requests that DLJ provide it with financial advisory services in connection (i) with a transaction which is not a Transaction or (ii) for which aggregate consideration (as described in Section 3) cannot be readily calculated, the Company and DLJ will in good faith mutually agree upon acceptable compensation for DLJ taking into account, among other things, the custom and practice of investment bankers of international standing acting in similar transactions. The Company and DLJ agree to reach such conclusion on a timely basis.

6. In the event that the Company decides to enter into (i) a Transaction or (ii) a transaction which is not a Transaction, and the aggregate consideration to be paid by the Company or to be received by the Company in connection with such Transaction or transaction (a) can be readily calculated and (b) is less than \$25,000,000, then the Company shall have the right to engage a financial advisory firm other than DLJ.

7. The Company shall make available to DLJ all financial and other information concerning its business and operations which DLJ reasonably requests as well as any other information relating to any Transaction prepared by the Company or any of its other advisors. In performing its services hereunder (including, without limitation, in giving an opinion of the type referred to in the second paragraph hereof), DLJ shall be entitled to rely without investigation upon all information that is available from public sources as well as all other information supplied to it by or on behalf of the Company or its advisors and shall not in any respect be responsible for the accuracy or completeness of, or have any obligation to verify, the same or to conduct any appraisal of assets.

8. Any opinion requested by the Company and any advice, written or oral, provided by DLJ pursuant to this Agreement is provided solely for the benefit of the Company, and may not be relied upon by any other party. The Company will not use, circulate, quote or reference any written opinion, valuation or Board presentation without the prior written consent of DLJ, which consent shall not be unreasonably withheld. Any written opinion of DLJ will not be filed with, included in or referred to in whole or in part in any registration statement, proxy statement or any other public solicitation document, except in each case with our prior written consent. However, DLJ agrees that any of its written opinions may be introduced as evidence and such opinions or any advice may be otherwise referred to and used by the Company in any proceedings before or other matters before any government agency related to a Conversion Transaction, provided however that the Company uses reasonable efforts to attain confidential treatment for such information.

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9. This Agreement may be terminated by either the Company or DLJ upon receipt of written notice to that effect by the other party. Upon any termination of this Agreement by the Company, DLJ will be entitled to prompt payment of all fees accrued prior to such termination and reimbursement of all out-of-pocket expenses as described above. Upon any termination of this Agreement by DLJ, DLJ will be entitled to reimbursement of all out-of-pocket expenses as described above. The indemnity and other provisions contained in Schedule I will also remain operative and in full force and effect regardless of any termination of this Agreement.

10. In addition, if at any time prior to 18 months after any termination of this Agreement (if terminated by the Company or by DLJ with cause) a Transaction is executed for which DLJ is not given the option to act as sole financial advisor, initial purchaser, managing underwriter, manager, arranger or placement agent (as the case may be), DLJ will be entitled to payment in full of the compensation described in Section 2 of this letter as if DLJ had so acted in the execution of such Transaction.

11. If the Company determines to pursue any Capital Transaction, DLJ and the Company will enter into an underwriting, purchase agreement, loan agreement or other similar agreement appropriate for the circumstances, containing provisions for, among other things, compensation, indemnification, contribution, and representations and warranties, which are usual and customary for similar agreements entered into by DLJ or other investment bankers of international standing acting in similar transaction. Absent execution and delivery by DLJ and the Company of such agreement, DLJ shall have no obligation to purchase or place any securities of the Company or make any loans.

12. The Company acknowledges and agrees that DLJ has been retained solely to provide the advice or services set forth in this Agreement. DLJ shall act as an independent contractor, and any duties of DLJ arising out of its engagement hereunder shall be owed solely to the Company.

13. DLJ acknowledges that the Company has previously engaged Legg Mason Wood Walker, Incorporated pursuant to an engagement letter dated February 28, 2000 in connection with potential opportunities for the sale of Paruxent Medical Group, Inc., a wholly-owned subsidiary of the Company and recognizes that it will not be the exclusive financial advisor to the Company in connection with this specific transaction.

14. This Agreement shall be binding upon and inure to the benefit of the Company, DLJ, each Indemnified Person (as defined in Schedule I hereto) and their respective successors and assigns.

15. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts executed in and to be performed in that state.

16. If any term, provision, covenant or restriction contained in this Agreement, including Schedule I, is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions contained in this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

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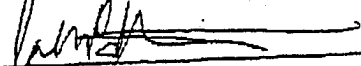
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CareFirst BlueCross BlueShield  
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After reviewing this Agreement, please confirm that the foregoing is in accordance with your understanding by signing and returning to me the duplicate of this letter attached hereto, whereupon it shall be our binding Agreement.

Very truly yours,

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

By:   
John W. Patterson  
Managing Director

Accepted and agreed to  
this \_\_\_\_ day of July, 2000

CAREFIRST BLUECROSS BLUESHIELD

By:  7-11-00

William L. Jews  
President and Chief Executive Officer

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## SCHEDULE I

This Schedule I is a part of and is incorporated into that certain letter agreement (together, the "Agreement"), dated June 15, 2000 by and between CareFirst BlueCross BlueShield (the "Company") and Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ").

The Company agrees to indemnify and hold harmless DLJ, its affiliates and its parent and its affiliates, and the respective directors, officers, agents and employees of DLJ, its affiliates and its parent and its affiliates (DLJ and each such entity or person, an "Indemnified Person") from and against any losses, claims, damages, judgments, assessments, costs and other liabilities (collectively "Liabilities"), and will reimburse each Indemnified Person for all fees and expenses (including the reasonable fees and expenses of counsel) (collectively, "Expenses") as they are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation, whether or not in connection with pending or threatened litigation or arbitration and whether or not any Indemnified Person is a party (collectively, "Actions"), (i) caused by, or arising out of or in connection with, any untrue statement or alleged untrue statement of a material fact contained in the exclusive sale memorandum or offering memorandum or in the proxy statement, registration statement or prospectus, if any, provided to the Company's shareholders or policyholders or other parties deemed to beneficially own the equity of the Company (including any amendments thereof and supplements thereto, collectively, the "Disclosure Documents") or by any omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (other than untrue statements or alleged untrue statements in, or omissions or alleged omissions from, information relating to an Indemnified Person furnished in writing by or on behalf of such Indemnified Person expressly for use in the Disclosure Documents) or (ii) otherwise arising out of or in connection with advice or services rendered or to be rendered by any Indemnified Person pursuant to this Agreement, the transactions contemplated hereby or any Indemnified Person's actions or inactions in connection with any such advice, services or transactions; provided that, in the case of clause (ii) only, the Company will not be responsible for any Liabilities or Expenses of any Indemnified Person that are determined by a judgment of a court of competent jurisdiction which is no longer subject to appeal or further review to have resulted solely from such Indemnified Person's gross negligence or willful misconduct in connection with any of the advice, actions, inactions or services referred to above. If multiple claims are brought against an Indemnified Person in an arbitration, with respect to at least one of which indemnification is permitted under applicable law and provided for under this Agreement, the Company agrees that any arbitration award shall be conclusively deemed to be based on claims as to which indemnification is permitted and provided for, except to the extent the arbitration award expressly states that the award, or any portion thereof, is based solely on a claim as to which indemnification is not available. The Company also agrees to reimburse each Indemnified Person for all Expenses as they are incurred in connection with enforcing such Indemnified Person's rights under this Agreement (including, without limitation, its rights under this Schedule I).

Upon receipt by an Indemnified Person of actual notice of an Action against such Indemnified Person with respect to which indemnity may be sought under this Agreement, such Indemnified Person shall promptly notify the Company in writing; provided that failure so to notify the Company shall not relieve the Company from any liability which the Company may have on account of this indemnity or otherwise, except to the extent the Company shall have been materially prejudiced by such failure. The Company shall, if requested by DLJ, assume the defense of any such Action including the employment of counsel reasonably satisfactory to DLJ. Any Indemnified Person shall have the right to employ separate counsel in any such Action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such

Indemnified Person, unless: (i) the Company has failed promptly to assume the defense and employ counsel or (ii) the named parties to any such Action (including any impleaded parties) include such Indemnified Person and the Company, and such Indemnified Person shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or in addition to those available to the Company; provided that the Company shall not in such event be responsible hereunder for the fees and expenses of more than one firm of separate counsel in connection with any Action in the same jurisdiction, in addition to any local counsel. The Company shall not be liable for any settlement of any Action effected without its written consent (which shall not be unreasonably withheld). In addition, the Company will not, without prior written consent of DLJ, settle, compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened Action in respect of which indemnification or contribution may be sought hereunder (whether or not any Indemnified Person is a party thereto) unless such settlement, compromise, consent or termination includes an unconditional release of each Indemnified Person who is a party to such Action from all Liabilities arising out of such Action.

In the event that the foregoing indemnity is unavailable to an Indemnified Person other than in accordance with this Agreement, the Company shall contribute to the Liabilities and Expenses paid or payable by such Indemnified Person in such proportion as is appropriate to reflect (i) the relative benefits to the Company and its shareholders, on the one hand, and to DLJ, on the other hand, of the matters contemplated by this Agreement or (ii) if the allocation provided by the immediately preceding clause is not permitted by the applicable law, not only such relative benefits but also the relative fault of the Company, on the one hand, and DLJ, on the other hand, in connection with the matters as to which such Liabilities or Expenses relate, as well as any other relevant equitable considerations; provided that in no event shall the Company contribute less than the amount necessary to ensure that all Indemnified Persons, in the aggregate, are not liable for any Liabilities and Expenses in excess of the amount of fees actually received by DLJ pursuant to this Agreement. For purposes of this paragraph, the relative benefits to the Company and its shareholders, on the one hand, and to DLJ, on the other hand, of the matters contemplated by this Agreement shall be deemed to be in the same proportion as (a) the total value paid or contemplated to be paid or received or contemplated to be received by the Company or the Company's shareholders, as the case may be, in the transaction or transactions that are within the scope of this Agreement, whether or not any such transaction is consummated, bears to (b) the fees paid to DLJ under this Agreement.

The Company also agrees that no Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Company for or in connection with advice or services rendered or to be rendered by any Indemnified Person pursuant to this Agreement, the transactions contemplated hereby or any Indemnified Person's actions or inactions in connection with any such advice, services or transactions except for Liabilities (and related Expenses) of the Company that are determined by a judgment of a court of competent jurisdiction which is no longer subject to appeal or further review to have resulted solely from such Indemnified Person's gross negligence or willful misconduct in connection with any such advice, actions, inactions or services.

The reimbursement, indemnity and contribution obligations of the Company set forth herein shall apply to any modification of this Agreement and shall remain in full force and effect regardless of any termination of, or the completion of any Indemnified Person's services under or in connection with, this Agreement.